

Message Text

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ACTION EB-11

INFO OCT-01 NEA-10 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 9880

INFO AMEMBASSY DACCA

AMCONSUL KARACHI

AMCONSUL LAHORE

AMEMBASSY NEW DELHI

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E.O. 11652: ADS 7/3/74

TAGS: ETRD, PK

SUBJ: CHANGES IN GOP IMPORT POLICY

1. SUMMARY. CHANGES IN GOP IMPORT POLICY INCLUDE RAISING OF CEILING ON FREE IMPORTATION OF CAPITAL GOODS AND EXPANSION OF FREE AND TIED IMPORT LISTS. AT SAME TIME GOP IS RESTRICTING IMPORTATION OF CERTAIN EXISTING FREE LIST ITEMS TO PUBLIC SECTOR ENTITIES. ANNOUNCED GOALS OF POLICY CHANGES ARE AUGMENTING AVAILABILITY OF GOODS AND INCREASING INDUSTRIAL CAPACITY TO LESSEN INFLATIONARY PRESSURES. CHANGES APPEAR ON BALANCE TO CONSTITUTE SOME LIBERALIZATION, BUT POSITIVE EFFECTS ON CONFIDENCE OF BUSINESS COMMUNITY MAY BE DIMINISHED BY DECISION TO NARROW ROLE OF PRIVATE SECTOR IN IMPORT TRADE.

2. COMMERCE SECRETARY EJAZ NAIK ANNOUNCED GOP IMPORT POLICY IN PRESS CONFERENCE DATED JUNE 27 AND 28. HE
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CITED MAIN OBJECTIVES OF MODIFICATIONS AS IMPROVING

QUALITY OF DOMESTICALLY-PRODUCED GOODS THROUGH INTRODUCTION OF SOME OUTSIDE COMPETITION, INCREASING PRODUCTIVE CAPACITY IN INDUSTRY THROUGH MORE LIBERAL CAPITAL GOODS IMPORTS, AND INCREASING AVAILABILITY OF GOODS IN COUNTRY SO AS TO DIMINSH INFLATIONARY PRESSURES.

3. IMPORT CEILINGS. IN ORDER TO ENCOURAGE EXPANSION OF PRODUCTIVE CAPACITY, GOP IS RAISING CEILING ON FREE IMPORT OF CAPITAL GOODS FROM RS. 200,000 (\$20,000) TO RS. 1 MILLION FOR ITEMS IMPORTED UNDER CREDIT AND FROM RS. 500,000 TO RS. 2.5 MILLION FOR ITEMS IMPORTED UNDER BARTER.

4. MODIFICATION IN IMPORT LISTS.

(A) FREE LIST. FREE IMPORT LIST CONTAINING 327 ITEMS IS EXPANDED TO INCLUDE ADDITIONAL 26 ITEMS. NEW IMPORTS INCLUDE ART SILK YARN, POLYPROPYLENE AND POLYETHYLENE BAGS, ELS COTTON, KNITTING YARN, PULSES, SPARK PLUGS, TIRES AND TUBES, ASSORTED TOILETRIES, WATCHES AND CLOCKS, AND REFRIGERATOR COMPONENTS. IN CONTRAST TO THIS LIBERALIZING MOVEMENT, HOWEVER, NEW POLICY LIMITS IMPORTATION OF A NUMBER OF ITEMS ON FREE LIST TO PUBLIC SECTOR ENTITIES. BOARD OF INDUSTRIAL MANAGEMENT (BIM) IS GIVEN SOLE RIGHT TO IMPORT BUSES, TRUCKS, JEEPS, LANDROVERS, PICKUPS, TRACTORS (EXCEPT THOSE FROM BARTER SOURCES), IN ASSEMBLED OR DISASSEMBLED FORM, AS WELL AS AIR CONDITIONER COMPONENTS. NEW NATIONAL FILM CORPORATION IS GIVEN EXCLUSIVE AUTHORITY TO IMPORT CINEMATOGRAPHIC FILMS BOUYEMQOSED AND UNEXPOSED. ALUMINUM RODS, REFINED LEAD, REFINED ZINC, AND BLACK IRON OR STEEL PIPES ARE TO BE IMPORTED ONLY THROUGH TRADING CORPORATION OF PAKISTAN (TCP). PURCHASE OF THESE ITEMS IS TO BE ALLOWED FREELY TO ANY IMPORTER WHO PLACES ORDERS THROUGH TCP, HOWEVER.

(B) TIED LIST. TIED LIST IS EXPANDED FROM 23 TO 36 ITEMS. AMONG NEW TIED IMPORTS ARE SANITARY WARE AND ENAMEL BATYWTUDL, #CAROQN QVIR, #GLASSWARE, GHESB#AND

PLATE GLASS, TILES, NON-INDUSTRIAL ELECTRICAL ACCESSORIES AND APPLIANCES, CROCKERY AND PORCELAIN, AND CHROMIUM LIMITED OFFICIAL USE

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PLATED WATER FITTINGS.

5. PROCEDURES. GOP HAD INCREASED TIME LIMITS FOR OPENING L/C'S AGAINST LICENSES ISSUED UNDER CREDIT OR BARTER FROM 30 TO 60 DAYS. BANK GUARANTEES REQUIRED OF INDUSTRIAL AND COMMERCIAL IMPORTERS OF RAW MATERIALS AGAINST EXPORT COMMITMENTS HAVE BEEN REDUCED BY HALF, AND PROCEDURE FOR REFUNDING LICENSE FEES ON

UNUTILIZED PORTION OF IMPORT LICENSES IS BEING EXPEDITED.
IMPORT TRADE CONTROL SCHEDULE HAS BEEN REVISED TO BRING
IT INTO CONFORMITY WITH BRUSSELS TARIFF NOMENCLATURE.

6. COMMENT. MAJOR OBJECTIVE OF GOP IMPORT POLICY
CHANGES IS APPARENTLY TO INCREASE IMPORTS AS MEANS OF
DAMPENING INFLATIONARY PRESSURES. DECISION TO USE THIS
APPROACH HAS BEEN FACILITATED BY RECENT RAPID EXPANSION OF
FOREIGN EXCHANGE RESERVES. FREE LIST CHANGES DISPLAY
GOP SENSITIVITY TO PUBLIC COMPLAINTS ABOUT RISING PRICES
OF CLOTH. PLACEMENT OF ELS COTTON AND SUCH COTTON PRO-
DUCT SUBSTITUTES AS ART SILK YARN, KNITTING YARN, AND
POLYETHYLENE AND POLYPROPYLENE BAGS (USED FOR FERTILIZER
PACKAGING INSTEAD OF COTTON BAGS) ON FREE LIST IS INTENDED
TO EASE PRESSURES ON PAKISTAN'S NOW TIGHT SUPPLIES OF
RAW COTTON AND WEAKEN DEMANDS FOR TIGHT CONTROLS OVER
TEXTILE EXPORTS. OTHER ADDITIONS TO BOTH LISTS WILL
INCREASE AVAILABILITY OF GOODS CONSUMED BY MIDDLE CLASSES
SUCH AS TOILETRIES, GLASSWARE, AND APPLIANCES. THIS
IS JUSTIFIED BY GOP AS ANTI-INFLATIONARY MEASURE ON
GROUNDS THAT IT WILL MOP UP SOME OF EXCESS INCOME WHICH
HAS ACCUMULATED AMONG MIDDLE CLASSES OVER PAST YEAR AND
WILL THEREBY REDUCE PRESSURES ON PRICES OF LOCALLY-
PRODUCED GOODS. THUS FAR BUSINESS HAS GENERALLY WEL-
COMED EXPANSION OF IMPORT LISTS, THOUGH THERE HAS BEEN
SOME CRITICISM OF SPECIFIC ITEMS ADDED. MAJOR TARGET
OF CRITICISM IS RESTRICTION OF VEHICLE AND INDUSTRIAL
RAW MATERIAL IMPORTS TO BIM AND TCP. THIS NARROWING
OF ROLE OF PRIVATE SECTOR IN IMPORT TRADE, WHICH HIS-
TORICALLY HAS BEEN IMPORTANT SOURCE OF CAPITAL FORMATION,
MAY HAVE INDIRECT EFFECT OF NEGATING AT LEAST IN PART
ONE OF STATED PURPOSES OF IMPORT CHANGES, WHICH IS TO
ENCOURAGE PRIVATE SECTOR INVESTMENT IN INCREASED PRO-
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